ASHLAND Credit Union

March 9, 2010

Ms. Mary Rupp
Secretary of the Board
National Credit Union Administration
1775 Duke Street
Alexandria, VA 22314-3428

Re: Proposed Corporate Credit Union Regulation 704

Dear Ms. Rupp:

On behalf of Ashland Credit Union, I would like to express our appreciation to the NCUA Board for allowing natural person credit unions to comment on the proposed Corporate Credit Union Regulation 704.

Ashland Credit Union manages approximately $170 million in assets for 25 thousand members who are located all 50 states. We are currently a member of Kentucky Corporate FCU, Member's United Corporate FCU and Corporate One FCU. Our field of membership includes current and former employees of Ashland Inc. and Kings Daughters Medical Center and their affiliated companies, as well as, family members of current and former members.

While the proposed NCUA Regulation Part 704 contains some beneficial changes that will reduce risk and augment the future value of Corporate Credit Unions (i.e. stronger capital standards, limits on investment concentrations, prohibitions on certain securities, and enhanced liquidity processes), the proposed rule contains one provision which, left unchanged in the final rule, will significantly limit the value received from corporate credit union membership and, therefore, is not in the best interests of the credit union system.

704.2 Definitions – *Available to cover losses that exceed retained earnings*

To the extent that any contributed capital funds are used to cover losses, the corporate credit union must not restore or replenish the affected capital accounts under any circumstances.

We are confused with this definition's rationale. If the definition's intent is to maintain the capital level of a corporate credit union then this could be achieved by adding the following phrase to the end of the sentence: "until a corporate credit union meets the well-capitalized level and any return of capital will not lower the corporate capital below the well-capitalized level". If the agency's concern is safety and soundness, once the Corporate achieves a well-capitalized level, there will no longer be a safety and soundness issue.

The regulatory mandate to permanently deplete capital based on estimated losses created by OTTI models with no ability for a Corporate to replenish the affected capital accounts is a major concern. Generally Accepted Accounting Practices (GAAP) does not require the capital depletion treatment being applied by the NCUA, which is covered in the Letter to Credit Unions

09-CU-10 and now included in the revised definitions in the proposed rule.

Furthermore, as part of the FASB's Accounting for Financial Instruments project, it is likely that the FASB will change the credit impairment model standards in 2010 to allow OTTI reversals as loss projections improve. NCUA regulatory accounting treatment should allow for the same accounting treatment as national standards and not permanently deplete credit union capital based on projections which will continually change.

704.8(h) Two-year average life

(h) Weighted average asset life. The weighted average life (WAL) of a corporate credit union's investment portfolio, excluding derivative contracts and equity investments, may not exceed 2 years.

The impact of this part of the proposed regulation negatively affects a corporate credit union's ability to earn an adequate yield on its investment portfolio. A corporate credit union increases its portfolio yield as it moves out on the maturity spectrum. Securities with longer maturities or weighted average lives typically earn higher yields to compensate investors for the additional interest rate risk inherent in the longer term. The current NEV testing required of corporate credit unions adequately measures and limits this risk. The proposed 2 year WAL restriction will lower the yield a corporate credit union will earn on its portfolio thus reducing the deposit rates available to natural person credit unions investing in corporate credit union certificates. The ultimate reduction in deposit offering rates by a Corporate will cause a significant competitive disadvantage to the banking industry.

The proposed regulation will also affect the asset mix of a corporate credit union's investment portfolio. The 2 year WAL limit will make it more difficult for a corporate credit union to invest in Federal Agency mortgage-backed securities (MBS). While we realize MBS are the cause of the corporate losses, it was the private issue, non-agency mortgages that caused the problems. Federal Agency MBS are highly liquid instruments that can be easily sold if liquidity is needed. Unlike non-agency MBS, Federal Agency pass through securities are low credit risk and pose minimum risk to a widening of credit spreads. There are very active and liquid markets for borrowing using agency MBS as collateral should liquidity needs arise. Had U.S. Central been limited to purchasing only Federal Agency MBS, my credit union would not be experiencing large insurance premiums and OTTI write-offs of our corporate capital deposits. Federal Agency MBS, used properly, are a prudent investment alternative for corporate credit unions.

We urge you to amend this section to allow a weighted average life of 3 years and that Federal Agency and government-guaranteed securities be treated separately with a longer weighted average life restriction of 5 years.

Again, thank you in advance for considering our comments to the proposed changes of Regulation 704.

Sincerely,

L Lucas

Larry J. Lucas
President